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Message Text

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----------031118 181638Z /46
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FM SECSTATE WASHDC
TO AMEMBASSY MADRID PRIORITY

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E.O. 11652: N/A

TAGS: MASS, EFIN, SP

SUBJECT: AMENDMENT AND EXTENSION OF EXIM CREDIT 2852

REFERENCE: MADRID 09069

A MEETING IS SCHEDULED AT EXIMBANK ON AUGUST 21 WITH MAJOR
MIGUEL FIDALDO, ASSISTANT MILITARY ATTACHE, EMBASSY OF
SPAIN.

EXIMBANK'S REPLY TO JULY 28 LETTER FROM DIRECTOR GENERAL
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OF SPANISH TREASURY IS BEING WITHHELD PENDING OUTCOME OF
THE MEETING.

EXIMBANK'S PRESENT POSITION IS AS FOLLOWS:

1. THE 1971 SIX PERCENT CREDIT HAD EXPIRED.

2. THE EXTENSION WAS GRANTED SUBJECT TO EXIMBANK'S
RECEIVING 7.5 PERCENT INTEREST ON DISBURSEMENTS MADE AFTER

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THE EXPIRATION OF THE 1971 AGREEMENT.

3. EXIMBANK NOTIFIED GOS THROUGH AMEMBASSY MADRID OF ITS EXTENSION OF THE LOAN AND SIMULTANEOUSLY OF ITS INTEREST RATE INCREASE.

4. GOS SUBSEQUENTLY REQUESTED DISBURSEMENTS DURING THE EXTENDED PERIOD, IMPLYING THAT IT HAD ACCEPTED THE EXTENSION WITH THE RELATIVE CONDITION OF INTEREST RATE INCREASE.

5. GOS RECEIVED THE BILLINGS, WITH THE NEW INTEREST RATE CLEARLY INDICATED, AND PAID THE AMOUNTS BILLED WITHOUT PROTEST.

6. GOS PERMITTED NEARLY TWO YEARS TO PASS BEFORE NOTIFYING EXIMBANK OF ITS OBJECTION TO THE 7.5 PERCENT RATE.

7. THE 7.5 PERCENT RATE IS A SPECIAL CONCESSIONARY RATE, BELOW EXIMBANK'S PRESENT COST OF FUNDS.

8. IF GOS DECLINES TO ACCEPT THE INCREASE IN INTEREST RATES, EXIMBANK WOULD NECESSARILY CONSIDER THE EXTENSION INVALID, AND REQUEST IMMEDIATE REPAYMENT OF FUNDS DRAWN DURING THE EXTENDED PERIOD.
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9. SINCE GOS HAS HAD THE USE OF EXIMBANK FUNDS DURING THE EXTENDED PERIOD OF HIGH COST FUNDS, A REFUND OF THE DIFFERENCE BETWEEN SIX PERCENT AND 7.5 PERCENT INTEREST ON THE FUNDS IS CONSIDERED INAPPROPRIATE.

PRIOR TO NOTIFYING GOS OF EXIMBANK'S POSITION, WE SHALL GIVE MAJOR FIDALDO AN OPPORTUNITY TO DISCUSS THE MATTER IN THE UPCOMING MEETING. EXIMBANK WILL INFORM EMBASSY OF OUTCOME OF MEETING.

10. FYI ONLY: IF IT APPEARS ISSUE WILL NOT BE RESOLVED UNLESS EXIM BANK YIELDS ON THE AMOUNT THE SPANISH ARE CLAIMING, EXIM BANK MIGHT CONSIDER PERMITTING SPANISH TO CREDIT THE AMOUNT TO A FUTURE BILLING. HOWEVER, EXIM BANK WILL INSIST ON SPANISH ACCEPTANCE OF THE 7.5 PERCENT INTEREST RATE IN EXCHANGE FOR AGREEMENT TO CONTINUING THE LOAN PROGRAM. END FYI. VANCE

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